

STATEMENT OF DAVID GRAVES
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BEFORE THE
SUBCOMMITTEE ON CONSERVATION, CREDIT, RURAL DEVELOPMENT
AND RESEARCH
HOUSE COMMITTEE ON AGRICULTURE
WASHINGTON, DC
TUESDAY, JUNE 26, 2001

Thank you, Mr. Chairman. My name is David Graves and I am President of the National Council of Farmer Cooperatives (NCFC). On behalf of NCFC, I want to commend you for holding this hearing and for the opportunity to share our views.

We believe a strong rural development title with increased emphasis on helping farmers help themselves through cooperative self-help efforts is critical to the success of any long-term strategy for dealing with the challenges facing American agriculture and rural America.

NCFC is a national trade association that represents America's farmer owned cooperatives. Our members include nearly 100 regional marketing, supply and credit cooperatives whose members, in turn, include over 3,500 local cooperatives which are owned and controlled by a majority of America's nearly 2 million individual farmers.

These farmer cooperative businesses handle, process, and market virtually every type of agricultural commodity grown and produced in the U.S.; manufacture, distribute and market farm supplies – including seed, feed, chemicals, fertilizer and fuel; and provide credit and related financial services, including export financing for and on behalf of their farmer owners.

The farmers' ownership and participation in these businesses provide them with the opportunity to capture more of the added value of what they produce beyond the farm gate as well as gain access to a more dependable and competitively priced source of farm inputs and products. Being farmer owned, earnings derived from these activities are returned to the cooperative's farmer owners on a patronage basis, which adds to their total income. In addition, with nearly 300,000 full time and seasonal workers, farmer cooperatives also represent a significant source of employment, which further contributes to the economic and tax base of thousands of local communities across the U.S.

This is the fourth year in a row that Congress has been faced with trying to deal with the immediate challenges facing U.S. agriculture by providing farmers with emergency economic and disaster assistance. Thanks to the leadership of this Committee and the generous support of Congress, for many farmers, such emergency assistance has been the difference between survival and going out of business. This is reflected in the fact that such assistance now accounts for as much as two-thirds of net farm income.

The current business environment continues to be very challenging. The farmer's share of the consumer food dollar has declined to where it now represents just 20 cents –its lowest level ever. Reversing this decline would substantially improve the farmer's economic well being. For example, increasing the farmer's share by just one cent to 21 cents would generate an additional \$6 billion in total income. The challenge of course is how, given the current business environment and trends.

In our view, the best way to help achieve this is to maintain and strengthen the ability of farmers to join together in cooperative self-help efforts. To be successful, however, farmers and their cooperative businesses must be strategically positioned to be able to compete in what clearly is a rapidly changing global marketplace.

A special NCFC task force, whose members included both farmer members and senior management representing a cross-section of farmer cooperatives from across the country, has identified a number of actions that would help encourage and promote such cooperative self-help efforts, which are highlighted in the attached summary. Specifically, the comprehensive proposal, referred to as the "Farmer Business and Income Opportunity Act," recommended the following:

I. Providing improved access to capital through credit and investment initiatives for farmer cooperatives for the benefit of their farmer owners.

Without question, access to capital is one of the greatest challenges facing farmer cooperatives. Providing farmers and their cooperatives with improved access to capital is needed to help gain ownership in value-added activities beyond the farm gate, to invest in new equipment, to modernize and expand, and meet costly environmental and other regulatory requirements. To help meet this challenge, the task force recommended several actions, including:

- Ø Modernizing and expanding USDA's Business and Industry Loan Guarantee Program for farmer cooperatives consistent with other similar USDA credit programs. This would include providing up to \$10 billion in guaranteed loan authority, eliminating user fees, removing the current cap on loans, and providing additional lending flexibility in the case of farmer cooperatives consistent with recognized commercial lending practices and generally accepted accounting principles. More specific recommendations and details are attached.

- Ø Clarifying existing authority under the 1996 Farm Bill providing guaranteed loans to farmers for the purchase of stock in a new, value-added business, to include both new and existing farmer owned cooperative businesses.
- Ø Eliminating what effectively is a “triple tax” on cooperative dividends on preferred stock under the dividend allocation rule. This would provide farmers and their cooperatives a much needed tool to help raise equity capital – without diluting farmer returns or their ownership in their cooperative.
- Ø Providing tax incentives to help attract capital and encourage investment in farmer owned cooperative businesses, such as contained in H.R. 1094 as introduced by Rep. John Thune and others.
- Ø Establishment of an equity capital fund such as that proposed previously by Senators Harkin and Craig, among others, to help attract private sector capital and investment in rural businesses, including farmer cooperatives.

II. Clarifying certain tax laws relating to the organization and operation of farmer cooperatives for the benefit of their farmer owners. These include:

- Ø Allowing farmer cooperatives that qualify as small ethanol producers to pass through the current 10 cent per gallon tax credit to their farmer owners.
- Ø Expanding the definition of cooperative marketing to include value-added processing through animals.
- Ø Allowing farmer cooperatives organized as section 521 cooperatives to seek declaratory judgement regarding their status under the Internal Revenue Code similar to other types of entities.

III. Revitalizing USDA research, education and technical assistance programs in support of farmer cooperatives for the benefit of their farmer owners.

- Ø Re-establishing a separate agency within USDA totally dedicated and focused on encouraging and supporting cooperative self-help efforts by farmers together with needed funding to carry-out related programs – including research, education and technical assistance. (Not less than \$6 million should be specifically authorized for the new agency to be called the Farmer Cooperative Business Service, along with an additional minimum of \$6 million for research, education and technical assistance grants relating to farmer cooperatives.)

In addition, the Under Secretary for Rural Development should be designated the Under Secretary for Rural Development and Cooperatives.

- Ø Maintaining and strengthening Value-Added Technical Assistance Grants program authorized under the Agricultural Risk Protection Act of 2000. The program should be maintained at not less than \$25 million annually to enhance the ability of farmers to become more involved in value added activities beyond the farm gate. (According to USDA, more than 200 applications are currently pending, amounting to over \$50 million in requests, in response to an initial level of \$10 million to be awarded. This suggests that as much as \$100 million could be potentially utilized.)

IV. Sense of Congress resolution to reaffirm support for farmer cooperatives and to ensure that federal policies and program serve to encourage and enhance the ability of farmers to join together in cooperative self-help efforts.

Mr. Chairman, we believe enactment of this package would provide farmers with a greater opportunity to improve their income from the marketplace, better manage their risk, capitalize on potential market opportunities, and compete more effectively in a rapidly changing global economy. Accordingly, we look forward to working with you and the members of this Subcommittee, as well as the full Committee, to help achieve these important goals.

Thank you again, Mr. Chairman, for the opportunity to appear before you. This concludes my testimony, and I look forward to responding to any questions you or members of the Subcommittee may have.